0.0 INTRODUCTION

This report provides information about Washington's electric utility industry, state and local regulation, and a number of issues that may require consideration in any policy changes affecting essential electricity services. The 1998 Legislature commissioned the Washington Utilities and Transportation Commission (UTC) and the Department of Community, Trade and Economic Development Energy Division (CTED) to study seven issues:

> (a) Variations in retail electricity rates within the state and in comparison with national averages, trends affecting the electricity service costs for all customers in the state, and strategies available to minimize those costs in the future;
> (b) Demographics of retail electric customers in the state to include the distribution of customers by size of load;
> (c) The potential for cost-shifting among customer classes and among customers within the same class, and strategies available to minimize inappropriate cost shifts;
> (d) The consumer protection policies and procedures of electric utilities, including areas of consistency and inconsistency among the utilities in those policies and procedures;
> (e) The status, number, and primary characteristics of service territory agreements between electric utilities;
> (f) The current level of service quality and reliability as measured by available statistics, trends affecting quality of service and the integrity and reliability of the distribution system, and ways to ensure high service quality and reliability in the future; and
> (g) Current levels of investment in conservation, non-hydro renewable resources, and low-income energy assistance programs, trends affecting such investment, and ways to fairly, efficiently, and effectively foster future achievement of the purposes of such investment.

A number of these areas directed the agencies to study strategies available to accomplish identified objectives. In these areas, we have described strategies, policies or actions that might be considered or adopted. In many cases, we have described arguments for and against these strategies. Based on our understanding of the Legislature's expectations, the agencies have not made specific recommendations regarding any strategy. Rather, we focused the study on presenting relevant information and discussing a range of policy options. In no case do these discussions of policies and strategies represent recommendations or conclusions as to the advisability or necessity of implementing such policies or strategies.

Discussions of policy options and strategies also do not imply that any particular action is necessary. Some stakeholders feel that Washington currently enjoys a relatively low-cost, reliable electric power system and that the best strategy may be to minimize change. Others suggest that economic forces have already changed

the electric power market, such that existing strategies for accomplishing policy goals may no longer be effective or appropriate. This tension between preserving the desirable characteristics of the existing system and responding to market changes that are already occurring was a recurring theme throughout the stakeholder discussions on the development of this report. Without implying that policy change is necessary, the agencies have provided information documenting the changes that are taking place, indicated how those changes may affect achievement of policy goals, and discussed alternative strategies for achieving policy goals in light of those changes. Again, describing changes and outlining alternative responses does not imply endorsement of either.

Summary of Report Organization

This report is organized into nine major sections.

1. **Washington's Electricity Landscape.** Fundamental characteristics of retail electric utility service in Washington, including:
   - ❖ Retail electric utilities serving the state
   - ❖ Utility load demographics
   - ❖ Retail rates and how they vary across the state
   - ❖ How rates and electricity costs compare with national averages.
   - ❖ Costs associated with different components of service (generation, transmission, and distribution)
2. **Trends Affecting Electric Service Costs.** These include wholesale and retail market development, the adequacy of the region's electricity supply and capacity, environmental trends, technology, and fuel cost.
3. **Strategies to Minimize Electric Service Costs.** Describes alternative strategies for minimizing electric service costs in light of the trends discussed in Section 2.
4. **Electricity Rates and Equity: The Potential for Cost-Shifting.** Examines the potential for cost-shifting among customer classes and among customers within rate classes. This potential is described qualitatively along with some simple quantitative estimates. Major trends affecting the potential for cost-shifting are described and strategies available to minimize cost-shifting are discussed.
5. **Utility Service Territory Agreements in Washington.** Describes state policy regarding utility service areas and the status of contractual service territory agreements.
6. **Consumer Protection Policies and Procedures.** Describes policies and practices employed by Washington utilities that establish terms and conditions of utility service and consumer rights.
7. **Utility Service Quality.** The way in which consumers are able to interact with their utility, and utility survey results regarding customer satisfaction.

8. **Electric Service Reliability.** A summary of information regarding:
   - ❖ Performance data for local distribution systems, such as service interruption and frequency data
   - ❖ Consumer survey results concerning satisfaction with electricity delivery performance reliability
   - ❖ Trends in distribution system reliability and major factors affecting distribution system performance
   - ❖ Strategies available to maintain high levels of distribution system performance.
9. **Electric System Benefits.** Conservation, renewable resources and low-income weatherization and energy assistance, including:
   - ❖ History of these programs and utilities' roles in undertaking them
   - ❖ Investment and performance trends
   - ❖ Factors affecting utility and other investment in these purposes
   - ❖ Strategies available to foster efficient use of electricity, renewable resource development and low-income programs.

Summary of Study Process and Data Collection

The study included data from published and other sources, utilities, and stakeholders. It included compilation of information and analyses rather than generating new forecasts, economic analyses or computer models. The only original quantitative analysis is in the cost-shifting discussion, in which simple estimates are presented of the magnitude of cost-shifting that might occur under a set of described conditions.

Washington's utilities were a major source of information for the study. They were requested to complete a survey pertaining to the seven study areas. The survey instrument is included in the appendix. Eighteen utilities responded to some or all of the survey, including four cooperatives and one small public utility district that were exempted from the provisions of ESSB 6560. Utilities responding to the survey represent more than 2.3 million, or 88 percent, of Washington's customers. For the most part, utility survey responses were thorough and provided information critical to the study's completion. The agencies recognize the substantial amount of work completing these surveys required of the utilities and thank them for their willing cooperation. Table 0.1 includes a list of utilities that responded to the survey.

Table 0.1. Utilities Contributing Data to the Study

Public Utility Districts: Benton County PUD Chelan County PUD Clark County PUD Cowlitz County PUD Franklin County PUD Grays Harbor County PUD Snohomish County PUD Grant County PUD **Investor-Owned Utilities:** Puget Sound Energy PacifCorp Washington Water Power	**Cooperatives:** Benton Rural Electric Association Inland Power and Light Parkland Power and Light Nespelem Valley Electric Orcas Power and Light **Municipal Utilities:** Seattle City Light Tacoma Power

The study also included a process for stakeholders and interested parties to contribute information, participate in discussions, and review the draft report. In June 1998, notice was sent to more than 700 interest groups, utilities and other parties announcing the study and requesting responses to simple questions regarding preference for level and forum for participation. The agencies received 184 responses to these questions and from this information designed a stakeholder consultation and participation process consistent with the general preferences of stakeholder groups. This process included:

- A general orientation and study introduction meeting in early July
- Surveying utilities and collecting information through mid-September
- Discussion and input on the study's major areas at four meetings in August.
- A meeting and opportunity to comment on the draft report in November.
- Extensive written comments on the draft report that contributed to substantial improvements in the final report.

Participation in this stakeholder process was enthusiastic and constructive. The agencies appreciate the time individuals and organizations committed to attending meetings and reviewing the draft report.